

CALENDAR EFFECTS: AN EMPIRICAL STUDY OF KSE 100 INDEX.



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ABSTRACT

This study is aimed to investigate calendar effects in Karachi stock exchange. There is a long tradition among investors and academics for searching through stock market data.

The findings are consistent with individual stocks that earn high returns during specific calendar months. There are a number of seasonal variables potentially related to stock returns.

The importance of the proposed work is due to the test for efficient market hypothesis, for the Karachi Stock Exchange (KSE). KSE has in last two years experienced tremendous growth in the volume and market capitalization. This research will contribute towards a better understanding of behavior of stock prices in the market.

Strategy for constructing the universe of calendar rules is to identify certain types of calendar rules based on the calendar frequencies used in published studies. For a given frequency, the number of calendar effects is then constructed by permutational rules.

Combining short, neutral, and long positions in the individual trading rules would generate in excess of half a million candidate trading rules. The reduced universe of calendar effects contains rules which are long (short) on each of the five days while being neutral otherwise, and

rules which are neutral on each of the five days while being long (short) otherwise.

The semi-month rules included in both the full universe and reduced universe of calendar rules are identical.

The existence of calendar effects in stock returns. Best known are probably the low mean returns on Mondays and the high mean returns in January. Return on the S&P 500 tend to be negative from Friday's close to Monday's close and that this is not simply a result of the longer three day period between these closing prices. Building on this discovery, they found that the Monday effect is a weekend effect and that it is closely related to the January effect: during January, Monday returns are positive, while they become negative during the remaining part of the year.